JOINT ECONOMIC COMMITTEE
CHAIRMAN ROBERT F. BENNETT

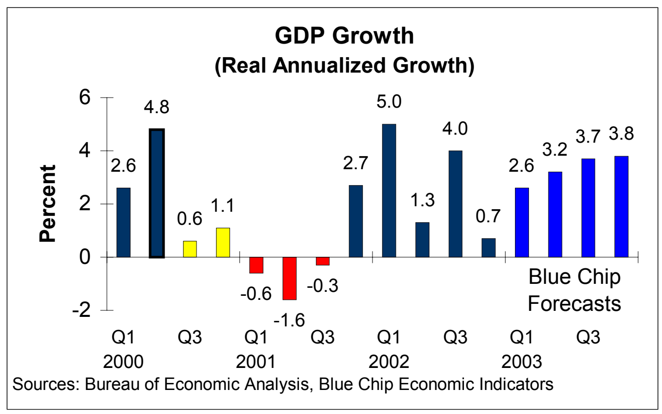
RECENT ECONOMIC DEVELOPMENTS
FEBRUARY 25, 2003

Mixed Economic Data Continue

Economic growth appeared to stall in the fourth quarter of 2002; the first estimate of GDP growth was a tepid 0.7 percent. However, more recent reports suggest that the quarter may not have been as weak as originally reported; for example, business inventories posted strong growth in December. The first quarter of 2003 began with mixed reports: industrial production surged in January, but retail sales were down significantly. Both changes were driven by volatile auto markets. Forecasters believe that growth will accelerate in 2003, following the recent soft patch, but risks persist. Of particular note are increased energy prices and continuing concern about international conflict.

Key Drivers of the Recovery: Consumer Spending, Productivity Gains, Housing, and Income Growth

GDP Growth in 2002 was moderate, though uneven. GDP growth averaged 2.75 percent for the year. Forecasters see steady improvement in the coming year.

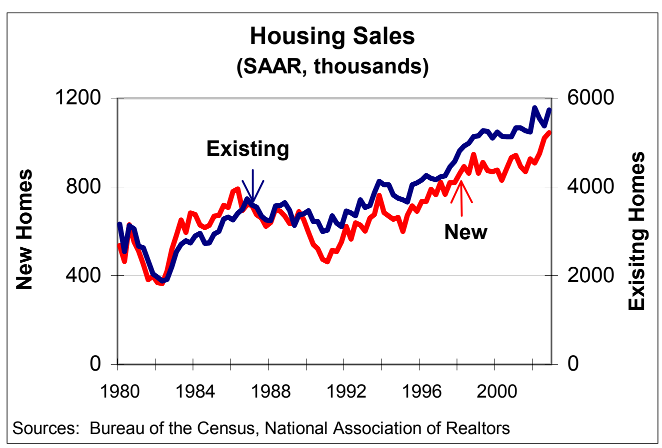


Sources: Bureau of Economic Analysis, Blue Chip Economic Indicators

Consumer spending, fueled by increases in personal income, reduced taxes, and rising home values, has supported the recovery, even as business hiring and investment have struggled.

Productivity grew strongly in 2002. Productivity waned in the fourth quarter, but the strong trend in growth remains. Productivity growth last year was the best since 1950. Productivity increases are a key driver of wage gains.

Housing markets have continued to be strong, supported by low mortgage rates.



Sources: Bureau of the Census, National Association of Realtors

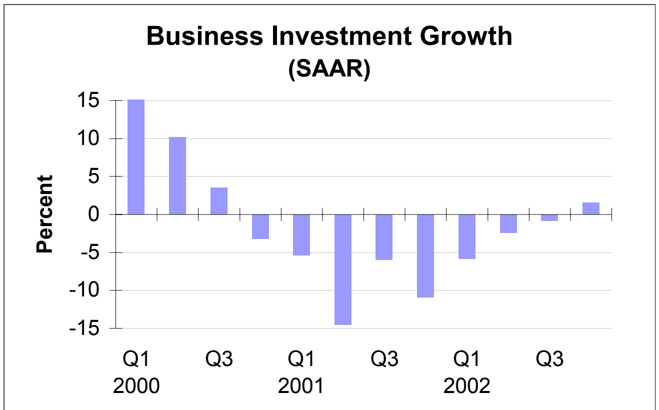
Personal Income grew rapidly in 2002; disposable income in December was up 8 percent over the previous year, boosted by both wage gains and lower taxes.

Inventories remain low by historical standards, boding well for future growth.

Industrial Production showed strong growth in January.

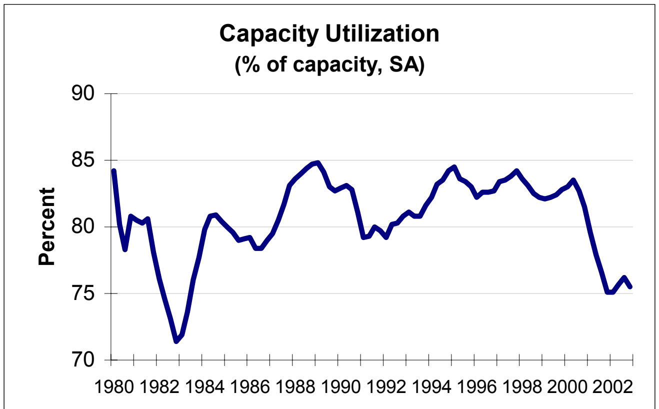
Areas of Weakness: Business Investment, Retail Sales, Employment, and Idle Capacity

Declines in **Business Investment** drove the 2001 recession and have slowed the subsequent recovery. There have been recent signs of improvements, however. Inventory investment of late has been stable but meek. Businesses are evidently concerned about the strength of future demand, heightened energy prices, and geopolitical uncertainties.



Source: Bureau of Economic Analysis

Capacity Utilization in the industrial sector has been low, hovering around 75 percent, well below the 82 to 83 percent levels seen in the late 1990s.

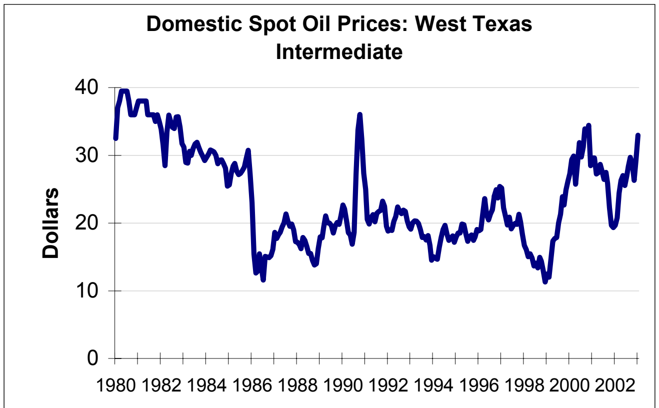


Source: Federal Reserve Board

Employment growth stalled in late 2002, with significant declines in November and December. Job growth posted a strong resurgence in January, however. Some of this variation is due to seasonal factors, most notably weak holiday hiring. The unemployment rate in January declined to 5.7 percent, from 6.0 percent in December.

Foreign Economies have been weak relative to the U.S. Real growth has been weak in Japan, Europe, and Latin America, and forecasters see a continuation into 2003. Weak demand overseas will limit export growth.

Retail Sales fell in January, because of steep declines in auto sales; non-auto sales increased.



Source: Wall Street Journal

Other Developments

Oil Prices have risen on concerns about Iraq and Venezuela, as well as cold winter weather.

Inflation remains benign, despite a one month jump in the producer price index.

The Dollar has weakened somewhat in recent months.

The Trade Deficit continues to be extremely high by historical standards.